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This 13th Quarterly Report highlights an important period in the evolution of the U.S. rebuilding effort in Iraq: the Iraq Relief and Reconstruction Fund (IRRF) is almost entirely expended, and the Government of Iraq (GOI) is now assuming—as it must—much greater responsibility for financing Iraq’s national recovery.

The United States will continue to support Iraq’s recovery, but the U.S. role has evolved from bearing the principal financial burden for reconstruction to providing targeted support in key areas. This continuing assistance

includes managing remaining IRRF projects, providing guidance on GOI initiatives, and pushing forward with the Baghdad Security Plan.

Significantly, the end of the IRRF does not mark the end of oversight. Thus, during this reporting quarter, the Special Inspector General for Iraq Reconstruction (SIGIR) continued its comprehensive oversight of Iraq reconstruction, completing 4 audits, 9 project assessments, and making progress on 79 investigations into allegations of fraud, waste, and abuse.

## MOVING BEYOND THE IRRF

In 2003, the Congress appropriated nearly \$21 billion to the IRRF. Today, more than 98% of these taxpayer dollars have been obligated, and more than 84% have been expended. Most IRRF projects are now complete, and most of the remaining projects will be finished by the end of 2007.

The U.S. effort now focuses on specific assistance aimed at strengthening the GOI’s operating capacity, promoting economic and political reform, and stimulating private sector growth. Considerable resources continue to be devoted to improving security so that meaningful economic and political development can occur.

Moving beyond the IRRF must include increasing international donor support for Iraq. Thus, the GOI is working to develop multilateral funding for Iraq’s national recovery. The expected catalyst for this effort is the International Compact for Iraq, which is scheduled to be formally approved in early May.

Notwithstanding the importance of the international support anticipated by the Compact, donor funds will be a secondary rather than a leading component to Iraq’s recovery. The leading component must be the GOI’s effective expenditure of its own significant capital budget.

## CHALLENGES CONFRONTING TRANSITION

The U.S. government is focusing on four important challenges confronting transition in Iraq:

- improving the GOI's capital budget execution
- facilitating progress on anticorruption efforts
- implementing the Baghdad Security Plan
- providing targeted support to local governments through the Provincial Reconstruction Teams (PRTs)

Resolving these challenges will advance the transfer of relief and reconstruction responsibilities to the GOI.

### Budget Execution

Effective execution of Iraq's capital budget is an essential prerequisite to progress on Iraq's recovery.

In 2006, the GOI expended just a fraction of the funds allocated for capital projects. By the end of October 2006, the GOI had spent only 59% of its FY 2006 total budget and just 18% of its capital budget (according to the Iraq Reconstruction Management Office). By contrast, the GOI effectively executed its 2006 administrative budgets, expending 97% of the allocations for salaries and pensions.

Part of last year's capital budget execution problem stemmed from the fact that the new government of Iraq was not completely formed until mid-2006. Additionally, a weak understanding by Iraqi ministries of complex GOI

contracting regulations hamstrung the budget execution process.

The U.S. Coordinator for Economic Transition is leading the U.S. Embassy's Budget Execution Initiative to improve the capacity of the GOI to execute capital budgets at all levels. This includes improving contracting capacity by training key officials at ministries and in various governorates. The Coordinator recently observed that the GOI has shown "the commitment and organization to do a better job spending its money and beginning capital projects."

The Budget Execution Initiative comprises an interagency task force that is coordinating multi-front efforts to address the problem. For example, the capacity-development program of the U.S. Agency for International Development (USAID) includes a budget-execution component, and IRMO's senior consultants advise their respective ministries on budget execution.

The United States has allocated nearly \$20 million to support the Budget Execution Initiative. This investment, along with necessary GOI discipline on fiscal commitments, will advance Iraq's recovery. To help achieve budgetary discipline, the GOI directed, in January 2007, that any ministry that fails to spend 75% of its semiannual budget by June will forfeit the unexpended funds, with the remaining balance reapportioned by the Ministers of Finance and Planning.

## Anticorruption Activities

SIGIR has repeatedly observed that corruption is a significant impediment to Iraq's recovery. This quarter, Iraqi officials continued to report to SIGIR that significant amounts of GOI funds have been subject to improper diversion.

Three pillars comprise Iraq's anticorruption institutions: the Commission on Public Integrity (CPI), the Board of Supreme Audit (BSA), and the Iraqi inspectors general (IGs). CPI estimates that Iraq's annual financial loss to corruption exceeds \$5 billion, but that figure is difficult to confirm. BSA, the most credible and long-standing Iraqi oversight organization, reports that corruption afflicts virtually every Iraqi ministry. The Iraqi IGs and their 2,500-member staff made some progress this quarter, but they continue to struggle to achieve their mission.

In January 2007, IRMO established the Office of Accountability and Transparency (OAT) to coordinate the U.S. Embassy's support to Iraq's anticorruption institutions. This action was taken in response to a recommendation in SIGIR's 2006 audit report, entitled "Joint Survey of the U.S. Embassy-Iraq's Anti-corruption Program." Since its inception, OAT has achieved important milestones:

- the appointment of senior consultants for Iraq's inspectors general and BSA

- assisting the GOI in the development of the Iraqi Joint Anti-Corruption Council (JACC), which coordinates the primary anticorruption entities under the leadership of the Prime Minister

SIGIR is conducting a follow-up audit on U.S. support for anticorruption programs in Iraq.

## Reconstruction and the Baghdad Security Plan

Reconstruction is a major component of the new Baghdad Security Plan that President Bush announced in January 2007; the new Commander of the Multi-National Force-Iraq launched the Plan in February.

As part of this joint U.S.-GOI operation, 2,500 projects are planned in ten security areas throughout Baghdad. Many of these projects focus on providing or improving access to potable water, sewerage, electricity, schools, and medical facilities. SIGIR is reviewing progress on the reconstruction component of the Plan and will provide analysis in future Quarterly Reports.

## Provincial Reconstruction Teams

The Provincial Reconstruction Team (PRT) program is the most important nationwide capacity-building effort that the United States is managing in Iraq.

PRTs are civil-military teams designed to build capacity in local governance across Iraq through direct assistance to and training of provincial government personnel.

In October 2006, SIGIR audited the PRT program, identifying weaknesses in resources, staffing, and coordination between the Department of Defense (DoD) and the Department of State (DoS). SIGIR is in the process of a follow-on review to assess progress on the audit's recommendations. Preliminary findings suggest that much progress has been made since October 2006, including the execution of memoranda of agreement between DoD and DoS, staffing up of existing PRTs, and improving overall resource provision.

Pursuant to the Baghdad Security Plan, the PRT program is significantly expanding. In

March 2007, team leaders for ten new PRTs arrived in Iraq; six of the new teams are located in Baghdad to support the Baghdad Security Plan. As the PRT program expands, significant challenges must be overcome, including ensuring that PRTs are fully staffed with personnel possessing the right skill-sets and securing safe work environments.

PRTs interact with Provisional Reconstruction Development Committees (PRDCs) in Iraq's provinces. PRDCs comprise the community leaders and provincial officials responsible for managing the development of local infrastructure and the provision of services. They determine reconstruction priorities, oversee local contracting processes, and manage infrastructure projects provided with U.S. assistance funds and GOI resources.

## TRANSITION BENCHMARKS

In 2007, the GOI must meet specific milestones to demonstrate progress, but it has thus far achieved mixed results on several important reconstruction-related issues:

- the hydrocarbon law
- the transfer and sustainment of U.S.-funded infrastructure and systems
- the International Compact for Iraq

### The Hydrocarbon Law

Approval of a national hydrocarbon law by Iraq's Council of Representatives (COR) would stimulate significant private investment into Iraq's oil sector and thus provide substantial new revenue for Iraq's recovery. But without clear investment rules in place, multinational oil companies remain reluctant to invest in Iraq's oil sector. This reluctance has the effect of holding down Iraq's national income from potential levels and, consequently, delays the investment needed to restore the system's infrastructure.

The hydrocarbon law, originally slated for adoption by the COR by the end of 2006, was approved by the Council of Ministers in February 2007. Currently, the COR is considering the legislation, but delays continue because of controversy over certain provisions in the law, particularly the proposed language on the division of oil revenues and on the GOI's centralized authority over investment agreements made by provincial governments.

### Transfer and Sustainment of U.S.-funded Infrastructure and Systems

SIGIR previously raised concerns about the processes for transferring and sustaining U.S.-funded infrastructure and systems to the GOI. In its last Quarterly Report, SIGIR observed limited progress on ensuring the sustainability of reconstruction programs and projects. SIGIR's ongoing assessments of reconstruction projects suggest that efforts to improve the transition of programs and projects must be enhanced. See Section 3 for SIGIR assessment reports.

### The International Compact

The Compact was formally introduced at the United Nations on March 16, 2007, and it is scheduled to be adopted in early May 2007. The Compact will require Iraq to establish benchmarks for normalizing the security environment, reconciling the political environment, and revitalizing the economic environment.

In anticipation of the Compact's adoption, the GOI has begun to develop the processes necessary for tracking required progress. The Compact's conditions-based agenda demands a specific responsiveness from the GOI on security, transparency, and economic reform in return for international financial support.

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## NOTABLE SIGIR ACTIVITIES THIS QUARTER

### Audits

During this quarter, SIGIR auditors completed four audits. To date, SIGIR has completed 86 audit products. SIGIR continues work on 16 audits and plans to start at least 8 more next quarter. This quarter's audits addressed these issues:

- an update on the status of the Advanced First Responder Network (AFRN) project to improve the communications capabilities of Iraq's emergency first responders
- a restricted review of sustainment of AFRN
- a review of the management of the Commander's Emergency Response Program for FY 2006
- a review of internal controls related to disbursements of the IRRF apportioned to DoS

### Inspections

SIGIR completed 9 project assessment reports. Since the Inspections program began in summer 2005, SIGIR has completed 94 project assessments, 96 limited on-site inspections, and 304 aerial assessments.

SIGIR's sustainment reviews focus on whether the projects delivered to the Iraqis are being operated and maintained in accordance with contract specifications and manufacturer warranties. SIGIR found that, in seven projects visited this quarter, sustainment had not been properly carried out, posing a threat to

the condition and durability of the buildings and equipment turned over to the Iraqis. In one other sustainment review, SIGIR found that sustainment had been properly addressed and the projects should continue to remain functional.

### Investigations

This quarter, SIGIR expanded its investigative footprint in Iraq and the United States. SIGIR now has 19 investigators on staff, all of whom are former federal law enforcement agents. Eight of these agents are assigned to Baghdad; the balance of its investigative staff is assigned to the Arlington, Virginia office. SIGIR continues to field the largest number of fraud investigators in Iraq.

SIGIR investigators are working on 79 ongoing investigations, 28 of which await prosecution at the Department of Justice (DoJ). To date, SIGIR's work has resulted in 10 arrests, a 25-count indictment of 5 people, 5 convictions, 3 imprisonments, \$3.6 million in restitution orders, and more than \$9 million recovered.

Since December 2005, SIGIR has worked with a range of agencies to suspend or debar contractors for wrongful conduct involving Iraq reconstruction and Army support contracts in Iraq. Of these, 19 individuals or companies have been suspended, 16 other individuals or companies have been proposed for debarment, and 9 have been debarred. This



quarter, as a result of SIGIR's oversight work, the Department of the Army asked the Parsons Corporation to show cause why the firm should not be proposed for debarment.

### Lessons Learned Report

On March 22, 2007, SIGIR released its third Lessons Learned Report, *Iraq Reconstruction: Lessons in Program and Project Management*, at a hearing before the Senate Committee on Homeland Security and Governmental Affairs. Included among the main findings in the report was a recommendation that Congress

consider a reform measure to promote better integration among DoD, USAID, and DoS with respect to post-conflict contingency planning and operations.

At the conclusion of the hearing, the Chairman of the Senate Committee said, "I agree with the SIGIR that the State and Defense Departments and USAID must work together much more effectively on post-conflict reconstruction and I will examine possible legislative fixes to achieve that goal."

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# IMPACT OF SIGIR OPERATIONS

SIGIR oversight continues to produce a wide range of benefits. SIGIR advice and recommendations on policy have promoted economy, efficiency, and effectiveness in the conduct of the U.S. reconstruction program in Iraq and have served as a deterrent to malfeasance. SIGIR's reports and analyses have enabled the U.S. government to improve its efforts in Iraq and to plan more effectively for future efforts.

SIGIR oversight has produced tangible financial benefits. Through April 30, 2007, SIGIR audits have saved or recovered \$49.7

million and are working to recover another \$106.6 million of potential improper or duplicate payments. SIGIR investigations have recovered or seized \$9.5 million in assets and are working on the recovery of an additional \$18.6 million. SIGIR inspections have made recommendations to ensure the effective use of an estimated \$39 million in reconstruction projects.

For the data supporting these benefits, see Appendix B.

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## THE HUMAN TOLL

Violence continues to exact a deadly toll on reconstruction contractors, journalists, and Iraqi citizens.

- Since Iraq reconstruction began, 916 death claims for civilian contractors working on U.S.-funded projects in Iraq have been filed. In the quarter ending March 31, 2007, the Department of Labor reported 146 new death claims.
- DoS reports that 16 U.S. civilians died in Iraq this quarter. Since the beginning of the U.S. reconstruction effort, 224 U.S. civilians have died in Iraq.

This quarter, 9 journalists were killed in Iraq, bringing the total number to 100 since March 2003. Also, 37 media support workers have been killed in Iraq since hostilities began, including one this quarter, according to the Committee To Protect Journalists.<sup>1</sup>

Violence continues to force thousands of Iraqis to leave their homes each month. The Office of the UN High Commissioner for Refugees (UNHCR) estimates that during and after the Saddam Hussein regime, more than 4 million Iraqis have been displaced. According to UNHCR, “the international community is facing a much larger and more complex humanitarian crisis than the one aid agencies planned for during the run-up to the 2003 war.”<sup>2</sup>